

# SERBIA

**Table 1**

	2022
Population, million	6.7
GDP, current US\$ billion	63.4
GDP per capita, current US\$	9511.5
International poverty rate (\$2.15) <sup>a</sup>	1.6
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	2.9
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	10.1
Gini index <sup>a</sup>	35.0
School enrollment, primary (% gross) <sup>b</sup>	96.8
Life expectancy at birth, years <sup>b</sup>	72.7
Total GHG emissions (mtCO <sub>2</sub> e)	63.1

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2020), 2017 PPPs.  
 b/ Most recent WDI value (2021).

The growth of the Serbian economy slowed down in the first half of 2023 amid elevated inflation that started to hurt consumption. Growth is expected to pick up in the second half of 2023, but risks to the outlook are tilted to the downside. The incidence of poverty declined to an estimated 8.5 percent. Going forward, poverty reduction is expected to stagnate, as income gains are eroded by high inflation and rising food prices in particular.

## Key conditions and challenges

Growth in the first half of 2023 is estimated at 1.2 percent, y/y, significantly lower than in the same period of 2022. The main reason for this deceleration is a major decrease in investment with both private and public investment contracting. To a large extent, investment decreased due to lower inventories. Serbia needs to further remove bottlenecks for private sector investment including toward greener growth. Another challenge is the stubbornly high inflation, eroding the incomes of the poor due to their relatively high share of spending on food.

Over the medium term, under the base-case scenario, the Serbian economy is expected to grow at around 3 to 4 percent. With limited space for future stimulus packages, structural reforms are needed to accelerate growth to accelerate convergence to incomes of the EU.

## Recent developments

Weak GDP growth in Q1 and Q2 (0.9 and 1.7 percent, y/y) was caused by a significant decline in investment and to some extent by declining consumption (their contribution to growth was -4.7 and -0.7 percentage points in H1). On the other hand, net exports made a positive contribution to growth thanks to lower

energy imports (compared to the same period of 2022), as well as to compressed non-energy import demand.

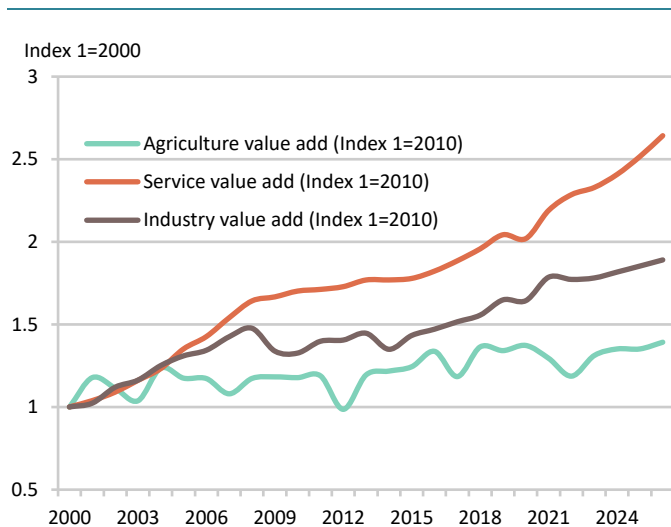
Labor market indicators remained broadly unchanged in 2023. The unemployment rate reached 10.1 percent in Q1 2023 (a slight increase compared to Q4 2022 when it reached 9.2 percent). Wages increased by 15.5 percent in nominal terms in the first half of the year compared to the same period of 2022.

Poverty (based on the upper-middle income line of \$6.85/day in 2017 PPP) is estimated to have declined slightly from 9.1 percent in 2021 to 8.5 percent in 2022. In 2023, poverty reduction continued due to strong economic growth and improving labor market conditions, though it was partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

Inflation remains stubbornly high, mainly due to a large increase in food and energy prices. The inflation reached a peak in March 2023 (16.2 percent), the highest since the CPI measurement started (in 2007). Inflation moderated to 12.5 percent in July. In the same month, food prices were 21.1 percent higher than a year earlier while energy prices were up by 23.7 percent. Rents for housing went up by 15.3 percent.

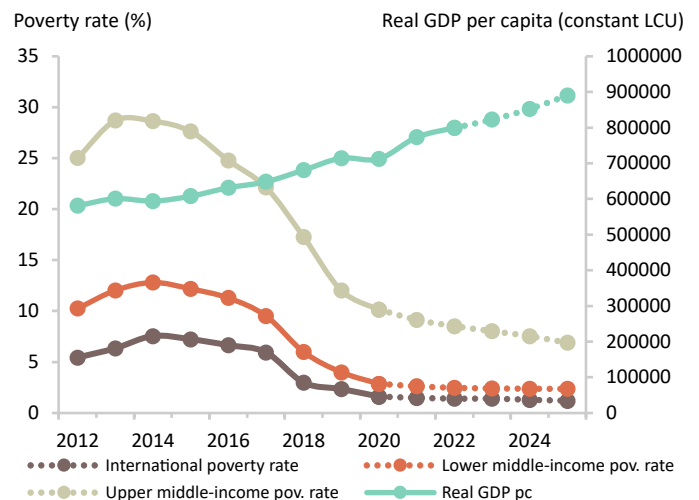
Budgetary revenues have overperformed thus far in 2023, primarily thanks to higher than planned collection of corporate income tax and high collection of contributions for social insurance. In the first half of the year, total revenues were

**FIGURE 1 Serbia /** Indexes of the level of sectoral GDP



Source: World Bank staff calculations.

**FIGURE 2 Serbia /** Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

higher by 12.6 percent in nominal terms (in real terms declined by 2.4 percent) compared to the same period in 2022. Over the same period, expenditures increased by 7.7 percent. As a result, the consolidated fiscal deficit recorded in the same period of 2022 turned into a surplus in 2023, reaching an estimated 0.6 percent of GDP. Public debt remained broadly stable throughout 2023 and stood at around 56 percent of GDP.

The current account deficit (CAD) shrank significantly in the first half of 2023 to 0.8 percent of GDP (down by 82 percent compared to the same period of 2022). This improvement, by and large, was driven by a major decrease in the trade deficit (which stood at EUR 3.2 billion in the first half of 2023 compared to EUR 5.3 billion in the same period of 2022) as imports slowed. Foreign currency reserves increased to a record high level of EUR 22.6 billion.

## Outlook

The Serbian economy is expected to grow at around 2 percent in 2023, driven primarily by consumption. The impact of the war in Ukraine, a slowdown in global growth and tighter financing conditions, were key factors for the downward revision of 2023 GDP growth. Further revisions are possible depending on the performance of the economies of Serbia's main trading partners.

Over the medium term, the economy is projected to grow steadily at around 3-4 percent annually, supported by increases in consumption and investment. Foreign direct investment is expected to continue to play a key financing role. Inflation is expected to decline gradually as commodity prices normalize. The banking sector is expected to remain resilient, with NPLs

stable at around 3 percent (at 3.2 percent in June 2023).

Poverty reduction is expected to gradually decline or stagnate in 2023 and beyond. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly, rising energy prices would disproportionately affect the poor. Poverty in 2023 is estimated at 8.0 percent, but it could be revised upward, depending performance of the economy in 2023. The pace of labor market recovery remains critical for resumed poverty reduction.

The outlook also crucially depends on the domestic reform agenda and its implementation. In particular, structural reforms in education, SOEs, along with further improvements in governance would pay off since those should incentivize private investors to invest more and to raise the quality of foreign investments in Serbia.

**TABLE 2 Serbia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-0.9	7.5	2.3	2.0	3.0	3.8
Private consumption	-1.9	7.6	3.9	1.8	2.4	3.4
Government consumption	2.9	2.6	1.6	2.0	0.3	3.0
Gross fixed capital investment	-1.9	12.9	2.0	-9.2	4.1	7.1
Exports, goods and services	-4.2	19.4	17.8	3.0	4.2	6.0
Imports, goods and services	-3.6	19.3	16.2	1.9	3.0	5.8
<b>Real GDP growth, at constant factor prices</b>	-0.7	7.3	2.0	2.7	3.0	3.8
Agriculture	2.3	-5.7	-8.3	12.0	3.4	3.4
Industry	-0.3	8.6	-0.7	0.3	4.5	4.5
Services	-1.2	8.4	4.5	2.9	2.2	3.5
<b>Inflation (consumer price index)</b>	1.6	4.0	11.9	12.7	5.3	3.5
<b>Current account balance (% of GDP)</b>	-4.1	-4.3	-6.9	-2.5	-3.6	-3.8
<b>Net foreign direct investment inflow (% of GDP)</b>	6.3	6.9	7.2	5.9	5.7	5.8
<b>Fiscal balance (% of GDP)</b>	-8.0	-4.1	-3.0	-2.8	-2.0	-1.5
<b>Revenues (% of GDP)</b>	41.0	43.2	43.4	42.9	41.9	40.9
<b>Debt (% of GDP)</b>	57.8	57.1	55.6	55.5	53.1	51.5
<b>Primary balance (% of GDP)</b>	-6.0	-2.4	-1.5	-1.0	0.0	0.3
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.6	1.5	1.4	1.4	1.3	1.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	2.9	2.6	2.5	2.4	2.4	2.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	10.1	9.1	8.5	8.0	7.5	6.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	2.3	5.0	-5.1	3.2	5.1	4.3
<b>Energy related GHG emissions (% of total)</b>	74.7	75.6	74.8	75.5	76.5	77.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.